Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	97-249
Access Reform Tariff Filings	97-250 ✓

COMMENTS OF AT&T CORP. ON PACIFIC'S AND NEVADA'S COST SUPPORT MATERIALS

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SUMMARY

Despite the Commission's desire to develop "market based" principles to address access charges, incumbent price cap LECs have resisted this attempt to provide consumer relief, seeking instead to overcharge interconnectors in various aspects. In their December 8, 1997 filings, Pacific and Nevada confirm that they are no different. As AT&T demonstrates, these LECs have improperly overstated access rates by $ 30-40 million, and have also sought to advantage their competitive offerings by anticompetitively and impermissibly shifting costs among different cost categories. The Commission should therefore require Pacific and Nevada to submit corrected cost studies and should suspend the tariffs filed by these two carriers based on their December 8, 1997 TRPs.

In Part I, AT&T demonstrates the impropriety of Pacific's and Nevada's calculations of line side port costs, a crucial area where these LECs seek to maintain over-recovery of costs. Based on their inadequate cost support, it appears that they have understated their line port costs in relation to the total embedded interstate local switching basket and, therefore, produced inflated local switching rates. Moreover, it appears Pacific disregarded analog switches, which also results in an inflation of local switching. Pacific and Nevada have failed to account for cost-saving network enhancements, and by misapplying line port and trunk port percentages, have ballooned the local switching rate even further. Collectively, AT&T estimates that these errors may cost IXCs and their customers $35 million.

In Part II, AT&T discusses how Pacific and Nevada have overstated TIC recovery, thereby forcing the inefficient recovery of approximately $ 7 million in non-traffic sensitive costs through improper usage sensitive charges. As the Commission itself has recognized, the TIC

"adversely affects the development of competition in the interstate access market" (Access Reform Order ¶ 212), yet, these LECs have persistently attempted to inflate TIC recovery. They have improperly estimated the impacts on the TIC arising from the use of actual volumes rather than presumed volumes of use. Moreover, Nevada has inappropriately included local traffic in developing common transport rates and both LECs have failed to make appropriate exogenous adjustments. Finally, Pacific and Nevada have miscalculated their residual TICs and improperly allocated COE expenses.

Given the serious nature of Pacific's and Nevada's failures to comply with the Commission's Access Reform Order, the Commission should require them to correct their costs studies and suspend any tariffs that Pacific or Nevada file based on their December 8, 1997 TRPs.

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COMMENTS OF AT&T CORP.

Pursuant the TRP Order,[1] AT&T Corp. ("AT&T") hereby submits these comments with respect to the cost-support materials filed by Pacific Bell Telephone Co. ("Pacific"), Nevada Bell Telephone Co. ("Nevada"), on December 8, 1997. For the reasons discussed below, any tariffs based on these cost-support materials would raise significant questions of lawfulness which, at a minimum, would warrant suspension and investigation.

INTRODUCTORY STATEMENT

These comments address two of the most serious deficiencies in Pacific's and Nevada's TRPs and associated cost support materials. First, Pacific and Nevada have failed to properly remove line and trunk port costs from the local switching band, and have provided inadequate cost support material. Second, Pacific and Nevada have miscalculated their transport interconnection charge ("TIC") rates.

As a result of these deficiencies, AT&T estimates that Pacific's and Nevada's access rates will be overstated by approximately $ 30-40 million annually. Moreover, TIC rates will remain improperly inflated, potentially distorting interstate pricing by causing $7 million of non-traffic

[1] Support Material For Carriers to File to Implement Access Charge Reform Effective January 1, 1998, DA 97-2358, TRP (released November 7, 1997) ("TRP Order")

sensitive cost to be improperly collected through traffic-sensitive charges. Absent a Commission requirement that Pacific and Nevada submit correct cost support material, any tariffs based on their December 8, 1997 TRPs would force interexchange carriers ("IXCs") to pay these overstated and distorted access fees -- costs that customers ultimately will bear. Correcting these deficiencies is essential to the Commission's continued efforts to ensure that access rates are cost-based, efficient, and fair to all customers and end users.

I. THE COMMISSION SHOULD INITIATE AN INVESTIGATION INTO THE LINE AND TRUNK PORT COSTS REMOVED FROM PACIFIC'S AND NEVADA'S PRICE CAP LOCAL SWITCHING BAND.

In the Access Reform Order,[2] the Commission concluded that the non-traffic sensitive costs of the local switch associated with the end user's common line ("EUCL") should be recovered on a flat-rated basis, rather than a usage-sensitive basis. Id. ¶ 125. Because line side port costs (including the costs associated with the line card, the protector, and the main distribution frame) are non-traffic sensitive, the Commission reassigned them from the Local Switching band element to the Common Line basket and directed price cap LECs to recover them through common line rate elements, including the Subscriber Line Charge ("SLC") and the Pre-subscribed Interexchange Carrier Charge ("PICC"). Id. ¶ 126.

As AT&T discussed in its December 10, 1997 Petition, the Commission also concluded that the costs of a dedicated trunk port (including the trunk card and DS1/voice-grade multiplexers, if needed) currently included in the cost of the local switch also are non-traffic

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[2] In the Matter of Access Charge Reform, CC Docket No. 96-262, First Report and Order (released May 16, 1997) ("Access Reform Order").

sensitive and should be recovered on a flat-rated basis from the carrier purchasing the dedicated trunk terminated by that port, and that the costs of shared trunk ports should be recovered on a per-minute of use basis from the users of common transport trunks. Id. ¶ 127. Accordingly, the Commission ordered price cap LECs to move these trunk related costs from the Local Switching rate element to two new trunk transport rate elements in the Traffic-Sensitive basket. Id. The Commission further required the price cap LECs to conduct cost studies to determine the portion of the interstate local switching costs that is attributable to line-side and trunk-side ports, and to reflect that amount, including cost support, in their access 1998 access tariffs.[3]

Pacific's and Nevada's cost support filings do not comply with these requirements and, indeed, suffer from the same deficiencies that AT&T previously described with respect to the November 26, 1997 filings of the other price cap LECs. Both Pacific and Nevada have failed to provide adequate cost support material, and have relied on, and misapplied, internal, proprietary, and unverifiable cost models. Furthermore, Pacific's and Nevada's TRPs repeat the wide variance in line port investment percentages that AT&T found in the November 26, 1997 filings of the other price cap LECs. In addition, both companies have incorrectly applied line and trunk investment percentages to theoretical interstate revenue requirements rather than to the actual revenues in the local switching band.

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[3] To facilitate its review and that of other interested parties, the Common Carrier Bureau (the "Bureau") issued a Tariff Review Plan Order requiring price cap LECs to submit workpapers summarizing the key methods and findings of cost studies, including the development of exogenous costs and methods of reallocation, and sufficient information to support those summaries, including (a) a detailed description of study methods; (b) data sources; and (c) detailed investment, capital and operating expense, and overhead loading and other costs used in the cost studies. Support Material For Carriers to File to Implement Access Charge Reform Effective January 1, 1998, DA 97-2345, TRP ¶ 13 (released November 6, 1997) ("1997 Tariff Review Plan Order").

The Commission should suspend any access tariffs based upon Pacific's and Nevada's December 8, 1997 cost support filing, subject those tariffs to an accounting order, and begin an investigation into the line port costs that should be removed from the Local Switching rate element.

A. Neither Pacific Bell Nor Nevada Bell Provided Adequate And Sufficient Cost Support Material.

Pacific's (D&J at 7-4) and Nevada's (D&J at 7-4) line port cost supports do not provide sufficient information because they rely on the internal, proprietary, and unverifiable Bellcore Switching Cost Information System ("SCIS").

AT&T demonstrated in its December 10, 1997 Submission (at pp. 6-9), SCIS should not be used for rate-setting purposes because the model relies on hundreds of input variables which have not been disclosed to the Commission and other interested parties. Alternatively, AT&T argued (id. at 6-9) that if LECs like Pacific and Nevada are allowed to rely on proprietary models, the Commission should establish criteria with which these models must comply before their results can be used for ratemaking purposes. Various states and the Commission have already begun to develop and issue such criteria in related proceedings. Id. at 6-7.

Ground rules are necessary because the price cap LECs have used these cost models in different ways. Pacific and Nevada -- like SWBT and SNET[4] -- employed SCIS to produce a unit investment amount for line ports which was expanded to total investment by multiplying it by the number of lines in service. By contrast, Ameritech developed a ratio of line port investments to total local switching investments, producing a 27% factor for the company as a whole.[5]

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[4] See, e.g., SNET TRP § II.D and AT&T's December 10, 1997 Submission at Appendix E.

[5] Ameritech D&J at 13 ¶ 5.4.1.

Ground rules also are necessary because the price cap LECs have used these cost models in inappropriate ways. Because SCIS purports to be a forward-looking, incremental cost model,[6] it should not be used to determine line and trunk port embedded costs. If Pacific and Nevada have removed only their forward-looking costs from the Local Switching band element, they have understated the line port costs in relation to the total embedded interstate local switching basket. Consequently, the residual embedded base of local switching is overstated, leading to higher than expected local switching rates.

Furthermore, it is clear that Pacific and Nevada ran their SCIS models on only a subset of their local end office types. Pacific's and Nevada's Table 2, at page 7-6, shows the switch types that Pacific and Nevada used in their SCIS models to calculate line and trunk port investments. Pacific stated its network contains 348 NORTEL DSM-100 switches and 322 Lucent #5ESS switches (670 total switches) which combined produced a composite line port factor of 0.229661. Nevada stated it had 17 NORTEL DSM-100 switches and 11 Lucent #5ESS switches (28 total switches) which combined produced a composite line port factor of 0.311673. Pacific's and Nevada's 1996 ARMIS 43-07 reports indicate that Pacific had 783 local switches, of which 72 were analog stored program controlled, and Nevada had 50 local switches, all of which were digital. Thus, Pacific had 783 switches, but studied only 670, and Nevada had 50 switches, but studied only 28. In both cases, these LECs have more local switches in their networks than were "studied" to produce the results contained in their filings, resulting in a $5 million understatement.

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[6] BellSouth comments in Florida dockets 960833-TP/960916-TP, Appendix D "SCIS Overview," November 13, 1997. See also, "Paper on Bellcore's Switching Cost Information System Cost Model -- A Practical Approach to a Complex Problem," submitted by Viktor Schmid-Bielenberg, June 20, 1990, to the Symposium on Marginal Costs Techniques for Telephone Services, conducted by the National Regulatory Research Institute.

The apparent incompleteness of the study caused Pacific to completely ignore the analog switches that it currently uses in its network. As noted above, Pacific studied only NORTEL DSM-100 and Lucent #5ESS switches, both of which are digital switches, and no analog switches. Consequently, Pacific used the results of a digital-only, forward-looking cost study to determine the line and trunk port investments in embedded analog switches. This approach is to be contrasted with that of U S WEST which, in its November 26, 1997 filing, attributes a different line port investment percentage to analog switches than it does to digital switches. (See AT&T Petition at 9.) The Commission should direct these two LECs to explain and justify why they have executed an under-inclusive analysis of their local switches.

In addition, neither Pacific nor Nevada has attempted to explain how two recent cost-saving network enhancements -- host/remote switch configurations and integrated digital line carriers ("IDLCs") -- were captured in their SCIS model runs. Host/remote switch configurations are more cost efficient than previous technologies because they allow LECs to install less expensive remote switches in many wire centers.[7] And today's newest IDLCs are more cost efficient than previous technology because they can multiplex as many as 96 individual subscriber lines on as few as two copper wire pairs, or a single pair of optical fibers. The Commission should require that Pacific and Nevada explain how these cost-saving technologies were reflected in their studies. A failure to account for these improvements would impose significant cost on consumers that cannot be precisely quantified without additional data from Pacific and Nevada.

[7] Unlike stand-alone switches, remote switches do not possess all the necessary switching capabilities. Instead, they rely on their host switch to perform many of these functions and thereby reduce overall costs.

B. Pacific's And Nevada's TRPs Reveal Wide Variations In The Percentages Of Line Port Investments To Local Switching Investments.

Pacific's and Nevada's cost support filings further support AT&T's concerns over the wide variances that AT&T found in the November 26, 1997 filings of the other price cap LECs between (1) line port investment percentages, and (2) percentages of line port investment to local switching investment and line port exogenous costs to local switching revenues.

The Commission expected that 50% or more of the local switching investment would be associated with line and trunk ports.[8] In Pacific's December 8, 1997 filing, only 22.9% of the local switching investment (for both analog and digital switches) was assigned to the line port; in Nevada's December 8, 1997 filing, only 31.1% was assigned to line port.

The price cap LECs, including Pacific and Nevada, have not explained the wide variations in line port investment percentages, and have not explained why their reported percentages fall so far below the Commission's expectations. At the very least, Pacific and Nevada should be required to justify and document -- by switch type and manufacturer -- the investments that were included in the line port costs.

C. Pacific And Nevada Applied Their Line Port And Trunk Port Percentages Incorrectly.

As AT&T explained in it December 10, 1997 Submission (at pp. 11-12), line and trunk port percentages should be applied to the actual revenues in the local switching band, not theoretical interstate revenue requirements based on forward-looking costs. Theoretical requirements misrepresent what the LECs are actually recovering from their access customers in the local switching band. As a consequence, original embedded costs assigned to the local

[8] Jurisdictional Separations Reform and Referral of the Federal-State Joint Board, CC Docket No. 80-286, Notice of Proposed Rulemaking ¶ 78 n.141 (released October 7, 1997).

switching band in the separations process will be understated, the residual local switching band will be overstated, and interexchange carriers will be required to pay improperly inflated local switching rates, thereby distorting interstate pricing.

Pacific and Nevada, like other price cap LECs, did not apply line port investment percentages to the actual revenues in the local switching band, but instead calculated a theoretical interstate local switching revenue requirement using their ARMIS results for 1996 and the authorized interstate 11.25% return on investments. Pacific and Nevada then subtracted these theoretical exogenous costs from the local switching band, leaving a residual local switching amount in the local switching band. The result of these calculations is to understate the amount of line port costs to be recovered from the Common Line basket via new EUCLs, PICCs, and residual CCLCs, and to overstate the local switching band, resulting in higher local switching rates for interexchange carriers.

Pacific's and Nevada's miscalculation can be shown by comparing the percentage of line and trunk port exogenous costs to the local switching band revenues from the TRP with the percentage of line and trunk port exogenous costs to the local switching revenues actually booked as shown on the ARMIS 43-01 for 1996. The following table illustrates this difference:

	SCIS Factors.	Exog. Costs as % of TRP LS Basket	Exog. Costs as % of 1996 Net Revenues
PTCA Line Port	.229661	.155538	.136126
PTCA Trunk Port	.197207	.133558	.116890
PTNV Line Port	.311673	.173031	.174477
PTNV Trunk Port	.131127	.071889	.072490

These results demonstrate that Pacific and Nevada have understated their line port and trunk port exogenous costs, and therefore have overstated their local switching band costs.

II. PACIFIC AND NEVADA HAVE OVERESTIMATED TIC RATES THOUGH THEIR FAILURE TO MAKE THE ADJUSTMENTS REQUIRED BY THE ACCESS REFORM ORDER.

Pacific and Nevada also have overstated their transport interconnection charges ("TICs"). The TIC is an interim measure designed to recover the difference between revenues from new facility-based rates and revenues that would have been realized under the old "equal charge" rule. Access Reform Order ¶ 210. Because the TIC "adversely affects the development of competition in the interstate access market" the Commission has ordered it to be phased out. Id. ¶ 212. Pacific and Nevada have failed to properly phase out the TIC, and even have increased the amount of revenues recovered by the TIC.

A. Pacific And Nevada Have Improperly Estimated The Impacts On The TIC Arising From Actual Volumes Rather Than Presumed Minutes Of Use.

The Access Reform Order (at ¶ 207) directed the price cap LECs to determine common transport rates by using actual minutes of use ("MOUs") per circuit rather than an assumed 9000 minutes of use. Price cap LECs were ordered to recalculate their rates for the common transport portion of tandem-switched transport "using a weighted average of DS1 and DS3 rates reflecting the relative numbers of DS1 and DS3 circuits in use in the tandem-to-end office link, and using the actual voice-grade switched access common transport loadings[.]" Id. ¶ 206. It was expected that many LECs would use circuit loadings below 9000 minutes, so that the effect would be to shift revenue from the TIC into common transport. Because Nevada promulgated circuit loadings in excess of 9000 minutes, the recalculated common transport rates turned out to be lower than

their existing rates.[9] Pacific, even with a circuit loading of 5,854 minutes per circuit, calculated lower common transport rates. These companies now seek to remove revenue from the tandem-switched transport category and add it to the TIC category, resulting in a total increase of $4.9 million in TIC revenues. See Exhibit A.

These companies can reduce their common transport rates on the basis of actual circuit loadings and current DS1 and DS3 rates; but should not use TIC revenues to finance these reductions. The Access Reform Order clearly seeks to reduce the TIC: "we require incumbent LECs to use any increase in common transport revenues to decrease the TIC[.]" Id. ¶ 208. Increasing TIC revenues to finance the reduction in common transport rates undermines the Commission's expressly stated intent to reduce the TIC.

B. Nevada Has Inappropriately Included Local Traffic In Developing Its Common Transport Rates.

Nevada has also inappropriately included local traffic in the development of its common transport rates and revenue estimates. As discussed above, the Commission originally required LECs to establish tandem switched transport rates using 9000 minutes of use. LECs are now required to recalculate their common transport rates using their actual tandem switched transport volumes, and must use their actual interstate minutes of use in developing these rates.

Nevada, however, has erroneously included its intrastate IntraLATA toll, intrastate interLATA access and intrastate local traffic in its estimate of the interstate demand for Tandem

[9] This is partly because many of the LECs used circuit loadings greater than 9000 minutes, and partly because current DS1 and DS3 rates are generally lower than they were in 1993 when the initial common transport rates were developed. AT&T's Exhibit A displays Pacific's and Nevada's calculations and the correct calculation as proposed by Bell South at Attachment 5, page 5, of its January 29, 1997 Comments filed in CC 96-262. The calculations and format of Exhibit A is identical to AT&T's Exhibit H of AT&T's December 11, 1997 Submission.

Switched Transport.[10] The inclusion of the intrastate traffic in the development of the tandem switched transport rates artificially decreases the tandem switched rates and inflates the TIC by at least $.2 million.[11]

C. Pacific And Nevada Have Failed To Develop A Revenue Requirement And Make Exogenous Adjustments For The Recovery Of Multiplexers Used Between The Tandem Switch And The Serving Wire Center.

Pacific and Nevada failed to comply with the Commission's directive that LECs establish a flat-rated charge for multiplexers used between the tandem switch and the serving wire center. This charge is to be assessed pro-rata on the purchasers of dedicated DS3 trunks on the serving wire center side of the tandem. Access Reform Order ¶ 170. Establishment of this rate is part of the eventual elimination of the current unitary pricing structure for tandem switched transport. Id. ¶ 168. This new flat-rated charge for multiplexers recovers the cost of multiplexers that are currently recovered via the TIC.

Pacific and Nevada, however, in their Workpaper 10A, claim that "since a DS3/DS1 multiplexer rate element on the SWC side of the tandem switch already exists, there are no associated costs to transfer from the TIC service category to the tandem switched transport category for this rate element[.]"[12] This assertion is incorrect. The current rate element, which is assessed to users of Direct Trunked Transport between the serving wire center and the tandem

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[10] Pacific's and Nevada's December 8, 1997 filing, Exhibit 16.A states: "The intraLATA and local minutes were doubled since these minutes traverse two tandem trunks."

[11] In addition to Nevada, the following LECs (in their November 26, 1997 filings) are known to have included local transport in the rate development process: U S West (Workpaper 19) , SWBT (exhibit 16A).

[12] Pacific's and Nevada's December 8, 1997 filing, Exhibit 10.A, page 10-2.

switch, may not recover all the costs that this new flat-rated multiplexing element is intended to recover.

Most, if not all LECs, have a rate element for multiplexing of direct trunked transport. The Access Reform Order (at ¶¶ 168-70) indicates, however, that this new flat-rated multiplexing element was created to aid in the elimination of the current unitary tandem transport structure and, therefore, it should be assessed on users of unitary transport, not direct trunked transport. Because it is unlikely that Pacific and Nevada are assessing their DS3/DS1 direct trunked transport rate element on users of unitary transport, the costs of multiplexers required to provide unitary transport users are currently recovered -- improperly -- via the TIC. Moreover, even if Pacific and Nevada intend to begin billing unitary transport users of DS3 trunks via their direct trunked transport rate, their current filing does not account for the reallocation of costs from the TIC to the tandem switched transport band, thereby contravening the Access Reform Order (at ¶ 173). Consequently, Pacific and Nevada should be required to show that they are currently recovering the costs of any multiplexers used to provide DS3 trunks to users billed under the unitary structure. If they are unable to do so, they should be required to develop their revenue requirements and flat rates for DS3 to DS1 multiplexing between the serving wire center and the tandem switch as well as make the necessary adjustments to TIC and tandem switched transport via exogenous changes to the respective service bands.

D. Pacific And Nevada Incorrectly Recalculated The Residual TIC Amounts That They Estimated In Their July 1, 1997 Filings.

Pacific and Nevada have made a $7 million error in recalculating the residual TIC amounts that they estimated in their July 1, 1997 filings.

In an effort to separate facilities-based revenues from residual costs, the Commission's

Access Reform Order (¶¶ 64, 229-238) requires that LECs separate their June 30, 1997 TIC revenues between the portion of the TIC that is facility-related and that portion of their TIC that bears no relationship to any identifiable cost element -- the Residual TIC. As an initial step, LECs were required "to compute their anticipated 'residual' TIC amount by excluding revenues that are expected to be reassigned on a cost-causative basis to facilities-based in the future." Id. ¶¶ 64, 235. In addition, LECs were required, beginning with their July 1, 1997 filings, to apply "GDPI-X" adjustments solely to the "anticipated" residual TIC. If LECs were unable to estimate the "residual" TIC amount for their July 1, 1997 filings, an amount equal to 55% of the current TIC was to be used. Id ¶ 235. LECs will continue to apply their annual "GDPI-X" adjustments to the residual TIC until it becomes zero. Id. ¶ 235. The facilities-based elements will begin to be reallocated on January 1, 1998.

However, as a consequence of the July 1, 1997 application of the entire GDPI-X adjustment to the "estimated residual TIC," the current residual TIC is much lower than the residual TIC that existed on June 30, 1997. To determine if the GDPI-X adjustments to the estimated residual TIC were accurate, the LECs were ordered to file actual cost data reflecting facilities-based components of the TIC and recalculate the residual TIC targeted in the LECs' June 30, 1997 filings. The Commission also clearly stated that

> [i]f . . . any price cap incumbent LEC determines that its use of the applicable residual TIC estimate . . . resulted in more PCI reductions being targeted to the per-minute interconnection charge in its tariff filing to become effective on July 1, 1997, than were required to eliminate the per-minute interconnection charge, then that price cap LEC shall make the necessary exogenous adjustments to its PCIs and SBIs to reverse the effects of the excess targeting.

Access Reform Order ¶ 237.

Pacific's and Nevada's December 8, 1997 filings reveal two distinct departures from these requirements. First, Pacific and Nevada used the wrong TIC revenue to recalculate the residual TIC, thus understating the recalculated residual TIC. Specifically, they used the July 1, 1997 TIC instead of the June 30, 1997 TIC in their residual TIC recalculations.[13] As a result, Pacific and Nevada understated TIC revenues by $72M and $3M, respectively. See Exhibit B.

Second, Pacific and Nevada did not remove the remaining facilities-based portion of the TIC from the recalculated TIC, thus overstating the residual TIC.[14] To ensure that remaining facilities cost-based portions of the TIC are not targeted by price cap productivity reductions, the Commission required price cap LECs to identify them and ultimately place them in a separate, Supplemental ("SUPP") TIC Rate. This SUPP TIC was to include the remaining two-thirds of the tandem switch re-allocation and the unitary transport restructure. Pacific and Nevada indicated these amounts as $16,963,382 and $1,569,141 respectively.[15]

Utilizing the format in that Table and Nevada's filed data, AT&T found that Nevada's residual TIC should be $1,126,142. Since Nevada's targeted residual TIC revenues on June 30, 1997 were $2,971,340, Nevada should perform a $1,845,198 reversal of targeted GDPI-X dollars. See Exhibit B.

AT&T believes, based on its analysis of 18 price cap LECs' Access Reform filings, that these residual TIC recalculation errors arose due to the lack of a clear methodology. To facilitate the Commission's and other interested parties' reviews of any refiling of TIC recalculations,

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[13] Pacific's and Nevada's December 8, 1997 filing, p. 17-3, Table 1 "Current TIC Revenue."

[14] Id.

[15] Id. at 17-2.

AT&T recommends that the Commission instruct all LECs to utilize the format set forth in Table 1 (at p. 29) of its December 10, 1997 Petition and Comments.

E. The Commission Should Require Pacific And Nevada To Apportion Their COE Maintenance Exogenous Cost Changes To The Residual TIC.

Pacific and Nevada also erred in the apportionment of COE maintenance costs. In the Access Reform Order (at ¶ 223), the Commission mandated that LECs separately identify the dollar amounts of COE maintenance that had been misallocated to the trunking and common line baskets and then move these amounts to Local Switching, effective January 1, 1998. This adjustment necessitates a downward exogenous adjustment to the TIC.

In their present filings, Pacific and Nevada have not fully complied with these requirements. These exogenous adjustments must be applied to the TIC as it existed prior to July 1, 1997 because otherwise an excessive amount of the COE maintenance reallocation will be ascribed to the facilities-based TIC.[16] However, Pacific and Nevada have not used their June 30, 1997 TIC in the adjustment process, and consequently have made a $5 million error. The Commission should therefore require these carriers to properly apply the impact of their COE

[16] To illustrate, suppose that a LEC's total trunking basket on June 30, 1997 consisted of TIC revenue equal to $100 and that the LEC expected that the residual portion of the TIC would be 55%. Also assume that the X-Factor adjustment, implemented on July 1, 1997, removed the entire residual amount from the LEC's July 1, 1997 TIC. The LEC would currently have a TIC comprised solely of the remaining facilities-based TIC elements, and the total facilities-based TIC would be $45. For illustrative purposes assume that the LEC estimates its trunking basket exogenous cost adjustments to be – $45. By applying the entire marketing and COE maintenance exogenous cost adjustment to only the facilities-based TIC, the LEC would have facilities-based transport rates equal to zero. In this case the LEC should have assigned –$25 (55% x –$45) to the June 30, 1997 estimated residual TIC and –$20 (45% x –$45) to the facilities-based portion of the TIC.

maintenance exogenous cost adjustment on the residual and facilities-based TIC as of June 30, 1997.

CONCLUSION

For the reasons stated above, the Tariff Review Plans indicate that Pacific and Nevada have failed to properly implement the Commission's access reform directives. Unless corrected, the Commission should suspend and investigate their tariffs when they are filed later in December 1997.

Respectfully submitted,

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METHOD NECESSARY TO ISOLATE VOLUME IMPACTS

The LEC recalculation of the impact on the TIC resulting from the use of actual volumes fails to isolate the volume impacts from the impacts associated with changes in technology and from LEC initiated changes in prices that are allowed under the price cap rules. The failure to isolate the volume impact is readily demonstrated by the SBC-California calculation. Their proposed method requires average volumes per trunk of less than 1700 minutes per trunk if it is to produce a decrease in the TIC. Any volume above 1700 minutes per trunk will produce the unexpected anomalous opposite result . Clearly the method used by SBC and other LECs does not produce the intended result..

The correct calculation of the revenue change resulting from the change in the minutes of use per voice grade equivalent trunk was proposed by Bell South in their January 29, 1997 Comments filed in CC 96-262. Their method used the same data outlined by the commission in paragraphs 206 and 208. Specifically, Bell South used updated rates for DS3 and DS1 Direct Trunked Transport fixed and per mile charges, and the then current utilization of fiber and copper. The correct calculation, as outlined by Southern Bell that properly isolates the volume impact is:

(1) Develop the per minute rates using the 9000 minutes as originally ordered by the Commission.
(2) Develop the per minute rates using the actual interstate access minutes of use per trunk
(3) The rates from step (1) and (2) are each multiplied by the base period demand and the difference between the revenue produced by (1) and (2) is identified.
(4) Step (3) will isolate the volume effect from the other effects. The result from Step (3) will produce the appropriate result. LECs with more than 9000 interstate access minutes should calculate an increase in the TIC. LECs with fewer than 9000 minutes will calculate a TIC decrease. LECs with exactly 9000 minutes will have no change in their TIC.

The calculations outlined in the exhibit display the SBC companies calculations and the corrected calculation. The calculations and format of exhibit XX is identical to AT&T exhibit H attached to the AT&T petition filed December 17, 1997. Page 1, Line 5 summarizes the LEC TIC change that results from using the actual minutes rather than the 9000 minutes originally ordered by the Commission. Page 1, line 4 shows corrected TIC impact. As outlined above the use of a calculation that isolates the SBC volume impact produces a TIC decrease as expected by the Commission.

Tandem Switched Transport
Rate and Revenue Development

EXHIBIT A
Page 1A

Impact of change in Minute of Use per Voice Grade Trunk

	Line #	SBC- California	Source	SBC- Nevada	Source
1997 Tandem Switched Transport Revenue as Filed Using Actual MOU per Trunk from 11-26-97 filing	1	$1,796,983.91	Page 3 Line 29	$126,602.13	Page 5 Line 29
1997 Tandem Switched Transport Revenue Recalculated Using 9000 Average MOU per Trunk	2	$1,162,012.50	Page 2 Line 29	$151,486.56	Page 4 Line 29
Difference	3	$634,971.41	Line 2 - Line 1	($24,884.43)	Line 2 - Line 1
Re-calculated Exogenous Change in TIC for 11-26-97 filing	4	($634,970.41)	1- line 3	$24,885.43	1- line 3
Filed Exogenous Increase to TIC, 11-26-97 (Excludes DA, FGA changes)	5	$4,199,570.00	SBC-CA Letter 12-08-97 Exhibit 16-2	$81,147.00	SBC-NV Letter 12-08-97 Exhibit 16-2
Difference due to LEC Methodology	6	$4,834,540.41	Line 9 - Line 8	$56,261.57	Line 5 - Line 4

PACIFIC BELL'S TANDEM SWITCHED TRANSPORT
RATE DEVELOPMENT MODEL
USING 9000 MINUTES PER TRUNK

Line #	Rate Development Item	Formula	Amount	Source
1	DS3 DTT Channel Mileage- Fixed rate		$535.00	SBC-CA Letter Filing 11-26-97, Ex 16-1, Line 5
2	DS3-DS1 Mux Rate		$0.00	
3	DS3 Fixed Sum Rate	Line 1 + Line 2	$535.00	
4	DS3 Assumed MOU per VG Equivalent Trunk	9000* 672	6,048,000	
5	DS3 Fixed Rate Per MOU Equivalent	Line 3 / Line 4	$ 0.000088	
6	Fiber Deployment %		96.29%	SBC-CA Letter Filing 11-26-97, Ex 16-1, Line 3
7	DS3 Weighted Fixed Rate per MOU Equivalent	Line 5 * Line 6	$ 0.000085	
8	DS3 DTT Channel Mileage- Per Mile Rate		$43.70	SBC-CA Letter Filing 11-26-97, Ex 16-1, Line 12
9	DS3 Assumed MOU per VG Equivalent Trunk	9000* 672	6,048,000	
10	DS3 Per Mile Rate Per MOU Equivalent	Line 8 / Line 9	$ 0.000007	
11	Fiber Deployment %		96.29%	SBC-CA Letter Filing 11-26-97, Ex 16-1, Line 3
12	DS3 Weighted Per Mile Rate per MOU Equivalent	Line 10 * Line 11	$ 0.000007	
13	DS1 DTT Channel Mileage- Fixed rate		$63.58	SBC-CA Letter Filing 11-26-97, Ex 16-1, Line 6
14	DS1 Assumed MOU per VG Equivalent Trunk	9000* 24	216,000	
15	DS1 Fixed Rate Per MOU Equivalent	Line 13 / Line 14	$ 0.000294	
16	Copper Deployment %		3.71%	SBC-CA Letter Filing 11-26-97, Ex 16-1, Line 5
17	DS1 Weighted Fixed Rate per MOU Equivalent	Line 15 * Line 16	$ 0.000011	
18	DS1 DTT Channel Mileage- Per Mile Rate		$13.02	SBC-CA Letter Filing 11-26-97, Ex 16-1, Line 13
19	DS1 Assumed MOU per VG Equivalent Trunk	9000* 24	216,000	
20	DS1 Per Mile Rate Per MOU Equivalent	Line 18 / Line 19	$ 0.000060	
21	Copper Deployment %		3.71%	SBC-CA Letter Filing 11-26-97, Ex 16-1, Line 4
22	DS1 Weighted Per Mile Rate per MOU Equivalent	Line 20 * Line 21	$ 0.000002	
23	Tandem Switched Transport Rate per MOU	Line 7 + Line 17	$ 0.000096	
24	Tandem Switched Transport Rate per Minute Mile	Line 12 + Line 22	$ 0.000009	
25	Tandem Switched Transport Fixed Minutes		5,653,605,197	SBC-CA Letter Filing 11-26-97, Ex. 16-2
26	Tandem Switched Transport Facility Minutes		68,807,377,912	SBC-CA Letter Filing 11-26-97, Ex. 16-2
27	Tandem Switched Transport Fixed Minute Revenue	Line 23 * Line 25	$542,746.10	Recalculated using 9000 MOU
28	Tandem Switched Transport Facility Minute Revenue	Line 24 * Line 26	$619,266.40	Recalculated using 9000 MOU
29	Total Tandem Switched Transport Revenue	Line 27 + Line 28	$1,162,012.50	Recalculated using 9000 MOU

PACIFIC BELL'S TANDEM SWITCHED TRANSPORT
RATE DEVELOPMENT MODEL
USING 5854 MINUTES PER TRUNK

Line #	Rate Development Item	Formula	Amount*	Source
1	DS3 DTT Channel Mileage- Fixed rate		$535.00	SBC-CA Letter Filing 12-08-97, Ex 16-1, Line 5
2	DS3-DS1 Mux Rate		$0.00	
3	DS3 Fixed Sum Rate	Line 1 + Line 2	$535.00	
4	DS3 Assumed MOU per VG Equivalent Trunk	5854* 672	3,933,888	
5	DS3 Fixed Rate Per MOU Equivalent	Line 3 / Line 4	$ 0.000136	
6	Fiber Deployment %		96.29%	SBC-CA Letter Filing 12-08-97, Ex 16-1, Line 3
7	DS3 Weighted Fixed Rate per MOU Equivalent	Line 5 * Line 6	$ 0.000131	
8	DS3 DTT Channel Mileage- Per Mile Rate		$43.70	SBC-CA Letter Filing 12-08-97, Ex 16-1, Line 12
9	DS3 Assumed MOU per VG Equivalent Trunk	5854* 672	3,933,888	
10	DS3 Per Mile Rate Per MOU Equivalent	Line 8 / Line 9	$ 0.000011	
11	Fiber Deployment %		96.29%	SBC-CA Letter Filing 12-08-97, Ex 16-1, Line 3
12	DS3 Weighted Per Mile Rate per MOU Equivalent	Line 10 * Line 11	$ 0.000011	
13	DS1 DTT Channel Mileage- Fixed rate		$63.58	SBC-CA Letter Filing 12-08-97, Ex 16-1, Line 6
14	DS1 Assumed MOU per VG Equivalent Trunk	5854 *24	140,496	
15	DS1 Fixed Rate Per MOU Equivalent	Line 13 / Line 14	$ 0.000453	
16	Copper Deployment %		3.71%	SBC-CA Letter Filing 12-08-97, Ex 16-1, Line 5
17	DS1 Weighted Fixed Rate per MOU Equivalent	Line 15 * Line 16	$ 0.000017	
18	DS1 DTT Channel Mileage- Per Mile Rate		$13.02	SBC-CA Letter Filing 12-08-97, Ex 16-1, Line 13
19	DS1 Assumed MOU per VG Equivalent Trunk	5854 *24	140,496	
20	DS1 Per Mile Rate Per MOU Equivalent	Line 18 / Line 19	$ 0.000093	
21	Copper Deployment %		3.71%	SBC-CA Letter Filing 12-08-97, Ex 16-1, Line 4
22	DS1 Weighted Per Mile Rate per MOU Equivalent	Line 20 * Line 21	$ 0.000003	
23	Tandem Switched Transport Rate per MOU	Line 7 + Line 17	$ 0.000147	
24	Tandem Switched Transport Rate per Minute Mile	Line 12 + Line 22	$ 0.000014	
25	Tandem Switched Transport Fixed Minutes		5,653,605,197	SBC-CA Letter Filing 12-08-97, Ex. 16-2
26	Tandem Switched Transport Facility Minutes		68,807,377,912	SBC-CA Letter Filing 12-08-97, Ex. 16-2
				Sum of all Density Zones
27	Tandem Switched Transport Fixed Minute Revenue	Line 23 * Line 25	$833,680.62	Sum of all Density Zones
28	Tandem Switched Transport Facility Minute Revenue	Line 24 * Line 26	$963,303.29	Sum of all Density Zones
29	Total Tandem Switched Transport Revenue as filed	Line 27 + Line 28	$1,796,983.91	SBC-CA Letter Filing 12-08-97, Ex. 16-2
				Sum of all Density Zones

*rates = average of 3 density zones